Department of the Treasury
Office of Thrift Supervision

Transmittal

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Depository institutions could increase the amount of mortgage servicing assets they count toward meeting minimum regulatory capital requirements under the attached proposed rule published jointly by the Office of Thrift Supervision (OTS) and the other banking regulatory agencies.

In calculating capital, the agencies currently limit the amount of mortgage servicing assets and purchased credit card relationships to 50 percent of core (Tier 1) capital. Any mortgage servicing assets over that amount must be deducted from both assets and from equity capital.

The proposal would raise the cap, which affects mortgage servicing assets and purchased credit card relationships, from 50 to 100 percent of Tier 1 capital. The agencies believe the higher limit is more reasonable in light of revised accounting guidance including prudent valuation and impairment standards.

The proposed rule would not change some current practices. For example, institutions would continue to follow generally accepted accounting principles (GAAP) for financial reporting of servicing assets, applying the same accounting treatment regardless of whether the institution purchased the right to service the mortgages or originated them. Also unchanged is the capital treatment for purchased credit card relationships. They could be included in assets and capital, but only up to a 25 percent of Tier 1 capital sublimit. Amounts exceeding that limit must be deducted from assets and from capital when computing regulatory capital.

All mortgage servicing assets and purchased credit card relationships would continue to be subject to a 10 percent haircut, meaning that 90 percent of their fair value could be included within the cap.

The proposal would prohibit the inclusion of any non-mortgage servicing assets, such as the servicing of car, boat and mobile home loans, in computing regulatory capital. Unlike mortgage servicing assets, which are regularly bought and sold, the less-developed market for non-mortgage servicing assets does not provide sufficiently reliable market value for these assets.

In general, excess servicing fee receivables that were previously included in regulatory capital by thrifts would be reclassified under GAAP as either servicing assets or interest-only strips. The proposal asks for comment on whether these interest-only strips receivable should be included without limit or be subject to the same caps and limits as mortgage servicing assets.

The notice of proposed rulemaking was published jointly in the August 4, 1997, edition of the Federal Register, Vol. 62, No. 149, pp. 42006-42016 by OTS, the Comptroller of the Currency, the Federal Reserve System and the Federal Deposit Insurance Corporation. Written comments must be received on or before October 3, 1997, and should be addressed to: Manager, Dissemination Branch, Records Management and Information Policy Division, Office of Thrift Supervision, 1700 G Street, N.W., Washington, DC 20552. Comments may be mailed or hand-delivered, faxed to 202/906-7755 or e-mailed to: public.info@ots.treas.gov. All commenters should include their name and telephone number.

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Attachment